SYSTEMATIC EXPANSION OF LEVERAGED FINANCING

DESCRIPTION

[Para 1] The Systematic Expansion of Leveraged Financing method, hereinafter SELF, uses five unique mechanisms to define an accelerated loan payment program that precisely calculates each extra payment amount and extra payment date of future extra payments made to debt(s) targeted for accelerated pay off. A floating payment method calculates unfixed payment amounts paid on the dates calculated to be affordable to the current budget. The method realizes significantly greater hard profits on the front end than programs featuring total interest costs savings provided on the back end.

RELATED APPLICATIONS

[Para 2] Cross reference to related applications.

Patent Number	Date	Name
3634669	Jan., 1972	Soumas.
3697693	Oct., 1972	Deschenes.
4334270	Jun., 1982	Towers.
4346442	Aug., 1982	Musmanno.
4376978	Mar., 1983	Musmanno.
4597046	Jun., 1986	Musmanno.
4642767	Feb., 1987	Lerner.
4722055	Jan., 1988	Roberts.
4742457	May., 1988	Leon.
4752877	Jun., 1988	Musmanno.
4774663	Sep., 1988	Musmanno.
4739478	Apr., 1988	Roberts et al.

5058009	Oct., 1991	Yoshino et al.
5673402	Sep., 1997	Ryan et al.
5689649	Nov., 1997	Altman et al.
5878404	Mar., 1999	Stout, Jr. et al.
6269347	Jul., 20001	Berger

TERMINOLOGY UNIQUE TO THE FIELD OF THE INVENTION

[Para 3] Terminology to understanding the details of the invention.

Definition List 1

Term	*Definition*
Accelerated loan payment, repayment method	Any method that adds payments to a loan contract for the purpose of paying off the loan ahead of the contracted retirement date.
Back End	The time when profits are realized in comparison to the start (front end) or end (back end) of a contract or program.
Biweekly, bimonthly	Also monthly, quarterly, semiannual, annually intervals used to schedule loan payments on a consistent and recurring basis
Cash Allocation Account, checking account, bill payment account, cash distribution account	Any account or device that temporarily holds funds allocated for expenses then makes payments to those expenses as it becomes payable or due.
Cash Income Account, income, earnings	Any source of income that increases the net balance of a budget.
Client Data	Past, present and projected budget information.
Cash Augmenting	Any bank or bank like product or service that

Account, leveraged financing mechanism, cash reserve account, cash leveraging account, leveraging account	is able to hold a cash reserve, allows funds to be paid into or out of the account, allows transactions to occur as needed by a client, allows electronic draw or payments and does not limit the number of transactions.
Expansion	Continual growth.
Extra payments	The added payment amounts that are not part of the loan contract but used to accelerate loan payment.
Financing	To pay for, arrange to pay for or cover costs.
Front End	The time when profits are realized in comparison to the start (front end) or end (back end) of a contract or program.
Leveraged	The use of a device or mechanism that amplifies efforts.
Principal only payments	The extra payments that are a payment with specific instructions to the loan service agent that the amount not have any portion credited to interest but the entire amount be applied to any remaining balance of the loan principal.
Profit	The cash amount in excess of expenses.
Savings	The potential.
Systematic	Routine, logical, efficient, organized or methodical.
Target Debt, target loan, target	Any installment type loan that will apply, is applying or has applied an accelerated loan payment method.

BACKGROUND OF THE INVENTION

[Para 4] The more popular accelerated loan payment methods combine regular scheduled loan payments, as defined by the loan contract, with extra

payments specifically directed towards the loan principal. Those extra payments are fixed amounts scheduled at consistent intervals such as weekly, bi-weekly, bi-monthly, monthly, quarterly, semi-annual or annual payments and dependent on regular cash allocations from an existing budget. To make the extra payments affordable the budget considers increased income or cutting expenses. If current cash flow prohibits extra payments when due then the accelerated loan payment method in use is inconsistent and unaffordable.

[Para 5] The affordability of accelerated loan payments is assured when a) the restrictions of fixed extra payments at regularly scheduled intervals are eliminated; b) extra payments are paid only when the payments are affordable; c) increasing income is not necessary; and d) extra payments amounts do not require budget cuts or re-allocation.

[Para 6] Current accelerated loan payment programs are designed for mortgages and propose substantial savings on overall interest costs for installment type loans. Significantly greater profits are realized in a shorter periods of time by focusing on eliminating the total number of payments actually being paid to one or more installment loan contract(s) such as credit cards, personal loans, auto loans, medical loans, student loans, 2nd mortgages, business loans, lines of credit, negotiated tax payments, court ordered payments etc.

[Para 7] A more effective and thereby more profitable accelerated loan payment program factors in each type of installment payment debts and focuses on the total debt load, more specifically, eliminating the total number and amount of debt service payments.

[Para 8] More recently developed methods of accelerated loan payment methods use home equity lines of credit to facilitate accelerated loan pay off by using cash advances to make the extra payments. The set up costs may include appraisal fees and credit checks. This type of method only affords participation from mortgages that have available equity and, in practice, does not produce an accurate loan repayment schedule thereby creating financial planning ambiguities. Piggybacking home equity lines of credit with

accelerated loan repayment remains vague, imprecise and the lacks the consistency needed to create a credible financial plan.

[Para 9] Consistency is attained by creating a budget that accurately a) defines income, expenses and debt service b) defines extra payment amounts, dates of payments and source of payments; c) accounts for fluctuations in income and expense; and d) easily provides updated details of a, b and c for any required period.

[Para 10] Professional groups that regularly seek financing for various projects must develop budget plans of high integrity and accuracy. This process first collects and analyzes historical, current and projected data related to the working environment of a specific project. Then a model of the project is developed that included details of projected cash flow, costs and profitability over a specific periods of time. The model's flexibility allows re-evaluation and revisions to accommodate changes in historical, current and projected data. The consumption of time and expert man-hours to create a budget plan makes this method extremely costly.

[Para 11] Managing costs to create an accurate, detailed and feasible budget plan is possible by using specialized software that analyzes, evaluates and processes relevant data to produce a detailed plan that is easily updated and revised.

[Para 12] The consumer, commercial, industrial and institutional markets would greatly benefit from an accelerated loan payment method that solves the aforementioned affordability, consistency, costs, profits and planning issues. The SELF method solves those problems using five unique mechanisms that works within the parameters of an existing budget, is detailed to simplify application, precisely defines payment amounts and dates to eliminate guesswork, accurately projects future transactions to facilitate financial planning and is flexible enough to allow various degrees of budget modifications for unplanned financial events.

[Para 13] The invention method and process is defined as a Systematic Expansion of Leveraged Financing method. A client applies the SELF method using five unique and proprietary mechanisms in a seven step process:

(1) Client provides details of past, present and projected cash flow and debt load

(2) Initial review qualifies client's budget

(3) SELF method ranks debt(s)for elimination (Fig.2)

(4) SELF method analysis to maximize profits (Fig. 5)

(5) SELF method use of leveraged and floating payments (Fig. 4)

(6) SELF method budget(s) options of 1 day to 50+ years (Fig. 1)

(7) SELF method cash flow applied by the client (Fig. 3)

STEP 1

[Para 14] Step 1 assumes the client receives income from one or more sources, hereinafter Cash Income Accounts, and puts all or most of that income into a bank or bank-like holding account for expense payments, hereinafter Cash Allocation Account. Client data is entered into a computer spreadsheet program. Client data entry is composed of detailed accounting of the client's past, present and projected cash flow and debt load including special financial events as income or expense entries. The special financial events may include expenses such as birthdays, holidays, anniversaries, vacation, seasonal, medical costs etc. and income such as dividends, distributions, inheritance, salary bonus, awards etc. In addition to traditional cash flow data, the SELF method demands a detailed daily accounting of income and expenses for at least a thirty day time period.

STEP 2

[Para 15] Step 2 assumes the client has at least one installment loan type of debt with a remaining balance. Data from step 1 is processed using a spreadsheet program to determine if the client's annual income exceeds annual expenses. Income exceeding expenses and the ability to create a leveraging account are the minimal requirements to participate.

STEP 3

[Para 16] SELF method's unique software compares and ranks current debt(s) then selects the most effective order to eliminate each debt at an accelerated rate (Fig. 2). Each debt is ranked by a) the balance remaining; b) the annual rate and the required debt service payments; c) the term in years; and d) the monthly debt service amount. The order that the debt(s) are targeted for accelerated elimination is defined with final target debt discretion to the client.

[Para 17] *Example: The highest monthly payment is rated 15, next highest is 14, next highest is 13 and so on. The highest remaining balance is rated 15, next highest 14, next highest 13 and so on.*

STEP 4

[Para 18] The SELF method's unique software is used to develop accurate projections of different budget scenarios within the clients existing cash flow and debt service. Calculated projections of each budget version include current budget items and the associated time frames, allowances for fluctuations in cash flow, prepayment penalties, added or reduced costs, and regular and/or extra payments already made to the targeted debt.

STEP 5

[Para 19] The client is required to create a cash flow leveraging mechanism, hereinafter the Cash Augmenting Account, in an institution of client's choice. The Cash Augmenting Account may use any bank or bank like product or service that allows the accumulation of cash and offers daily access to the account with no limits to the number of transactions paying into or out of the account.

[Para 20] The Cash Augmenting Account is a cash reserve with available funds determined by the needs of each client. The average cash reserve is 10,000. The ideal cash reserve amount is calculated by analyzing the client's budget then averaging the two months having the greatest total of monthly expenses and doubling that monthly average.

[Para 21] *Example: April's expenses = 7000, Decembers expenses = 5000, Avg. = 6000. The ideal amount of cash held in reserve in the Cash Augmenting Account is 12000.*

[Para 22] The preferred leveraging account has no qualification, set up, maintenance or interest costs. If this type of account is not available to the client, other bank or bank like product or services that meet the criteria for use as a leveraging account are listed in the order of profitability:

SELF compatible accounts
Savings/holding account
Business line of credit
Money market account
Margin account
Personal line of credit

[Para 23] Note: Many accelerated loan payment programs highlight the use of a home equity line of credit (HELOC) to take advantage of accrued equity in a home and tax deductible interest costs. The however there are negative considerations such as: a) qualifying costs; b) set up costs; c) appraisal fees; d) negligible interest benefits; and e) limits on methods of cash draw (no electronic transfer).

[Para 24] The SELF method applies a floating payment method (Fig.4) to the Cash Augmenting Account and precisely calculates and defines the date and amount that extra payments are made towards the target principal.

[Para 25] The floating payment method analyzes daily budget transactions and identifies each day that the client's accrued income to date exceeds the accrued expenses to date. The daily amount that exceeds the daily expenses is

disposable cash that accumulates in the cash reserve or Cash Augmenting Account.

[Para 26] *Example: The initial cash reserve of an Augmenting Account is +10,000.*

Date *(d)*	Income	Expense	Cash reserve	
Day 1	0	0	+10,000	
Day 2	0	-400	+9,600	
Day 3	+600	-100	+10,100	
Day 17	+100	0	+10,000	

[Para 27] The accumulation is automatic by paying all income to the Cash Augmenting Account prior to any expense payments as illustrated by item 2 in the Cash Flow Process (Fig. 3).

STEP 6

[Para 28] The client is provided with one or more precise, accurate, detailed and feasible budget plan(s). Each budget's time frame is customized to fit the client's needs and can be a single day or 50+ years. Typically the client uses a one year budget (Fig. 1) and each budget version precisely defines each cash flow transaction date, description, amount, leveraged account usage, SELF fees (if any), target debt cost, target debt reduction and on a daily basis.

[Para 29] The SELF method uses a Risk Factor, determined by each client, which is a percentage of the minimum cash reserve or the initial cash reserve in calculating all extra payment amounts. Multiplying the Risk Factor by the initial cash reserve and adding the amount in excess of the initial cash reserve produces the cash amount available amount for leveraging. A higher Risk Factor provides more cash for leveraging and creates a more aggressive accelerated loan payment program by.

[Para 30] *Example: A conservative Risk Factor is 20%. Day 3 The cash available for leveraging is 20% of 10,000 + 100 or 2,100.*

Date *(d)*	Income	Expense	Cash reserve	
Day 3	+600	-100	+10,100	Current balance
			10,000	Initial
			X 20%	Risk factor
				= 2,000
				Added to
			10,100	Current balance
			-10,000	Initial
				= 100
				= 2,100

STEP 7

[Para 31] Step 7 of the SELF method combines aspects of the previous 6 steps to apply the complete SELF method.

[Para 32] The Cash Augmenting Account to enables four cash leveraging effects to enhance the client's cash flow; a) a cash draw greater than the current income is available to pay regular expenses as it becomes due; b) the cash reserve balance expands by accumulating income amounts not used for expenses; c) extra payments to targeted debt is partially or wholly financed at each instance the accumulated cash reserve is equal to or in excess of the initial cash reserve amount; d) extra payment amounts vary according to the amount of excess over the initial cash reserve amount.

[Para 33] The SELF method systematically replenishes the Cash Augmenting Account by paying all income to the Cash Augmenting Account prior to making any expense payments (Fig.3).

[Para 34] Because the client's annual income exceeds the annual expenses (see step 2) there exists multiple future instances within the budget when the

income amounts exceed expenses and adds to the cash reserve account balance. Additions to the cash reserve balance continues in a routine manner until the initial cash reserve amount is equaled or surpassed. At that moment the amount available for leveraging is calculated and is made available for an extra payment to the target loan (Fig. 4).

[Para 35] *Example: Extra payments, self financed with a risk factor of 20%.*

Date *(d)*	Income	Expense	Cash reserve	Extra Payment
Day 1	0	0	+10,000	-2,000
Day 2	0	-400	+9,600	0
Day 3	+600	-100	+10,100	-2,100
Day 17	+100	0	+10,000	-2,000

[Para 36] The SELF method systematically expands disposable income by targeting then quickly eliminating low rated debts. Funds formerly used to service the debt is disposable income available for other purposes, however, if it is used to replenish the Cash Augmenting Account the accelerated elimination of the remaining debt(s), if any, is greatly enhanced.

[Para 37] As more debts are retired, funds formerly used for debt service is potential profit made available as disposable income that can be used to further accelerate debt retirement, used for other purposes or taken as profit (Fig. 5).

[Para 38] The SELF method can be implemented before or during any stage of an installment loan. Using SELF extra payments to the target continue until the target debt is eliminated then a new target is set. The process continues until no debt remains leaving options to keep or eliminate the leveraging account.